index and option market yearbook

1982

containing

Daily price ranges from January through December 1982 for contracts traded on the Index and Option Market division of the Chicago Mercantile Exchange and various cash market and statistical information.

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THE INDEX AND OPTION MARKET

The IOM Division of the Chicago Mercantile Exchange was organized to expand the Exchange's role as the premier marketplace for trading futures in financial instruments while diversifying into options trading in both the agricultural and financial areas.

The Exchange was founded in 1919 by the Chicago Butter and Egg Board, which provided a cash market in those two commodities. The intent was to establish futures markets in these and other agricultural futures contracts, while continuing cash trade in butter and eggs. By 1972, successful futures were being traded in slaughter and feeder cattle, live hogs, and frozen pork bellies (raw material for bacon), among other agricultural products.

The Birth of Financial Futures

The opening of the International Monetary Market by the Exchange May 16, 1972 revolutionized the futures industry as seven successful contracts in foreign currencies were introduced. Other successful futures were added in gold bullion, government debt (U.S. Treasury bills), and in private debt (domestic certificates of deposit and Eurodollar time deposits) — all in competition with other futures markets.

The IOM is Born

After the Commodity Futures Trading Commission (CFTC), the Federal regulatory agency, granted permission to futures exchanges on December 3, 1981 to trade options on a trial basis, the CME organized the Index and Option Market.

This new division was activated April 21, 1982, and the Exchange entered the world of equity related products with the listing of futures in the Standard & Poor's 500 Stock Price Index. The S&P futures contract quickly shattered all existing records for trading activity in a new product. By the end of 1982, a little more than eight months after it opened, the contract had traded 2.9-million contracts. By its first birthday, the figure had risen to more than 5 million.

At the year-end, plans were under way to add sub-indexes of the over-all S&P, and options on S&P 500 futures began trading January 28, 1983. Shortly thereafter, negotiations began for a reciprocal agreement under which the IOM would trade futures and the Chicago Board Options Exchange would trade options on matching instruments. The first would be the popular CBOE 100 Index options contract consisting of 100 individual stocks on which the CBOE provides options. The contract would be renamed the S&P 100 Index, and futures would be traded on the IOM.

Significance

Futures exchanges have thrived in the United States because they could provide hedging protection against adverse price movements to producers, processors, and large users of agricultural commodities. The IMM opened the gates to similar protection for money managers who faced risk from changes in foreign exchange rates and in yield on debt instruments.

The listing of futures trading in stock indexes provided the same kind of insurance, through hedging, to managers of diversified funds and stock portfolios, individual investors in stocks, underwriters of new stock issues, and other investment managers.

Membership

The Exchange had formed the Associate Mercantile Market Division (AMM) in 1976 for the trading of futures in lightly traded agricultural commodities. With the advent of the IOM, the AMM was phased out, and of the 150 AMM members, 123 converted their seats to the IOM. Random-length lumber, the most active AMM contract, was moved to the IOM. Members of the CME and the IMM as well as AMM converters to the IOM were granted IOM trading privileges and were permitted to purchase IOM memberships at $30,000 each. The 1,039 seats sold under this plan were frozen until the first anniversary of the IOM activation, when many were sold at prices well above the original purchase price, or were leased or

transferred to qualified users. Furthermore, the Exchange created and sold to qualified individuals an additional 125 IOM memberships for $60,000 by January 26, 1983.

Meanwhile, the 1,300 members of the Exchange as of April 28, 1981, voted 87 percent in favor of an expansion program mandating the distribution of a membership right (MR) to each full member. An MR was worth one-quarter of a full membership and could be (1) sold or bought in the open market between other members or the public, (2) privately sold or transferred between each other, of (3) leased. An MR permitted trading rights in designated, less active contracts. The owner of two or three MRs gained additional trading privileges, and the owner of four could gain full membership and full trading rights. The objective was to increase over-all membership by 25 percent over four years from 1,300 to 1,625. By the end of 1982, about two-thirds of the MRs had been converted to full memberships. This made the grand total for the CME and its divisions 1,575 full members, plus 442 unconverted MRs or a potential of 110 full members by 1985, plus 1,039 IOM memberships that may be sold, transferred or leased beginning in April of 1983. The long-range potential is for 2,724 full members, compared to the 500 limit in early 1972.

Building Expansion

The growth of membership from 500 in 1972, to promote and manage the flow of new contracts and increased activity in many listings, has dictated the need for ever-larger facilities over the years.

In 1928, the Exchange moved operations from the Marine Building at 136 West Lake Street to a modern high-rise structure at 110 N. Franklin Street. The trading floor at the latter site was expanded in the late 1960s, but still was overcrowded.

Another move came in 1972 to a new, much larger trading hall at 444 West Jackson Boulevard abutting the 222 South Riverside Plaza 35-story office building, where staff and member-firm offices are located. It was anticipated that the 22,500-square-foot trading hall would accomodate 15 to 20 years of growth, but a 9,000-square-foot expansion was necessary just seven years later.

As membership, trading activity, and new contracts continued to strain facilities, still another move was projected for late 1983. The Chicago Mercantile Center at 10 and 30 South Wacker Drive will feature a main trading hall of world-record dimensions for clear-span trading area — 39,000 square feet. Above it will be an auxiliary trading facility of 31,000 square feet, with both trading floors featuring the latest in high-technology communication equipment. When completed, the complex will be flanked by two 40-story office towers for staff, member firms, and outside business, professional, and commercial tenants.

Trading Volume

Trading activity virtually ceased during World War II because of price controls, and annual volume was under 250,000 contracts as recently as 1964. By 1967 (the CME's 48th year), however, it broke the million-contract barrier with 1.4 million. In 1972, 4.7-million contracts changed hands, including 144,928 on the fledging IMM.

In 1977, the 7.9 million contracts traded — 1.8 million on the IMM — triggered a quantum leap that established six successive annual records.

That 1977 record total quadrupled to 33.6 million contracts in 1982, including 18.7 million on the IMM. The CME's share of total volume on the 11. U.S. futures markets rose to 30 percent from 25 percent a year earlier. Its 9-million contract gain represented 65.2 percent of the over-all industry increase over 1981. Paced by August with 3.4 million contracts traded, 1982 witnessed the top 10 volume months in CME history. Eleven individual contracts set full-year records.

The IOM, in a little more than eight months, traded nearly 3.5 million contracts, 2.9 million in S&P futures, and over 500,000 in lumber. It is anticipated that these impressive figures will be dwarfed in years to come as the equity market learns more about futures and options, and new instruments are added to the IOM.

Rules and Regulations

The CME is strictly regulated by the Commodity Futures Trading Commission (CFTC) of the Federal Government and by a Board of Governors, with assistance from a large and active Department of Law and Compliance and appropriate Exchange committees made up of members. Because the Exchange has been designated a contract market in accordance with the Commodity Exchange Act, as amended in 1974, members are required to comply with all provisions of the Act. Reports are filed regularly, as stipulated by the CFTC.

The CME played a major role in the development of the National Futures Association (NFA) which, like the National Association of Security Dealers (NASD), is an industry self-regulatory agency with more than 1,000 members. It was activated October 1, 1982, and has headquarters in Chicago. The CFTC retains regulation of the exchanges, floor traders, floor broker, and registered representatives of brokerage houses, and also oversees the NFA. The NFA has superseded the CFTC, however, in the auditing of brokerage firms and in the registration and surveilance of brokerage firms, commodity pool operators, commodity trading advisors, and introducing-brokers affiliated with commodity brokerage firms.

The Chicago Mercantile Exchange's Board of Governors formulates and enforces rules and regulations controlling all operations, and provides contract specifications, including revisions in existing specifications, subject to government approval. The Board is designated to consist of 24 members of whom 12 are elected from the membership of the CME, four from the IMM, and two from the IOM, with six governors (three public, three industry) appointed by the chairman, who must be a member of the CME.

IOM Contract Changes

In order to keep its contract specifications abreast of industry practicers and thereby make the contracts more useful to the industries the Exchange serves, various methods are used. Contract specifications are altered only after consultation with industry leaders by way of special advisory committees or other contact, study by the Exchange research and marketing departments, and consideration by the appropriate Exchange committees and the Board of Governors. Proposed amendments are then submitted to the CFTC for approval. Rule changes applicable to 1982 and subsequent contracts are noted in the texts of Rules and Specifications in Section One, which follows.

The Exchange welcomes visits from organizations and groups and will provide literature dealing with the functions of the Exchange as well as a guide who will gladly conduct a tour and explain Exchange operations. Reservations must be made in advance.

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SPECIFICATIONS FOR STANDARD & POOR'S 500 STOCK PRICE INDEX FUTURES CONTRACTS TRADED ON THE INDEX AND OPTION MARKET

SCOPE OF CHAPTER — This chapter is limited in application to futures trading in the Standard and Poor's 500 Stock Price Index. The procedures for trading, clearing, settlement, and any other matters not specifically covered herein shall be governed by the rules of the Exchange.

COMMODITY SPECIFICATION — Each futures contract shall be valued at $500.00 times the Standard and Poor's 500 Stock Price Index.

TRADING MONTHS — Futures contracts shall be scheduled for delivery in such months as may be determined by the Board of Governors, subject to the requirement that all such determinations and other actions implementing such determinations be submitted to the Commodity Futures Trading Commission in accordance with the provisions of Section 5a(12) of the Commodity Exchange Act and all regulations thereunder.

TICKER SYMBOL — SP

TRADING HOURS — 9:00 a.m. to 3:15 p.m.

TRADING UNIT — The unit of trading shall be $500.00 times the Standard and Poor's 500 Stock Price Index.

MINIMUM INCREMENTS — Bids and offers shall be quoted in terms of the Standard and Poor's 500 Stock Price Index. The minimum fluctuation of the futures contract shall be .05 index points, equivalent to $25.00 per contract.

DAILY LIMITS — There shall be no trading at a level more than 3.00 index points (Effective July 6, 1982: 5.00 index points) above or below the preceding day's settlement except as provided by expanded daily limits rule and except that there shall be no limit in the spot month and in the succeeding contract month beginning on the last day of trading of the spot month. In the event there is no interim spot month, a regular month (i.e., March, June, September or December) will not trade without limits until the first business day of that month.

EXPANDED DAILY LIMITS — Whenever on two successive days any contract month closes at the normal daily limit in the same direction (not necessarily the same contract month on both days) an expanded daily limit schedule shall go into effect as follows:

1. The third day's limit in all contract months shall be 150% of the normal daily limit.
2. If any contract month closes at its expanded daily limit on the third day in the same direction, then the fourth day's expanded daily limit shall be 200% of the normal daily limit.
3. If any contract month closes at its expanded daily limit on the fourth day in the same direction then there shall be no daily limit for said contract on the fifth day.
4. On the sixth day of the foregoing progression, the normal daily limit shall be reinstated.
5. Whenever the foregoing daily limit schedule is in effect and no contract month closes at the limit in the same direction with initiated the expanded schedule, then the normal daily limit shall be reinstated on the following day.

REMOVAL OF DAILY AND EXPANDED LIMITS — Effective January 28, 1983, the S & P 500 Stock Index Futures shall trade without limits.

SETTLEMENT PRICE — The Settlement Price may be outside of the day's High/Low range, and/or may be different from the midpoint of the Closing Range, per C.M.E. Rule 813.

POSITION LIMITS — A person shall not own or control more than 5,000 contracts net long or net short in all contract months combined.

ACCUMULATION OF POSITIONS — For purposes of this rule, the position of all accounts owned or controlled by a person or persons acting in concert or in which such person or persons have a proprietary or beneficial interest shall be cumulated.

EXEMPTIONS — The foregoing position limits shall not apply to bona fide hedge positions meeting the requirements of Regulations of the CFTC and the rules of the Exchange, and shall not apply to arbitrage positions and inter-commodity spread positions subject to Exchange rules.

TERMINATION OF TRADING — Futures trading shall terminate on the thrid Thursday of the contract month. If the closing quotation for the Standard and Poor's 500 Stock Price Index is not published on that day, or that day is not an Exchange business day, futures trading shall terminate on the next business day for which a closing quotation of the Index is published. EFFECTIVE WITH JUNE 1984 AND SUBSEQUENT CONTRACT MONTHS: Futures trading shall terminate on the third Friday of the contract month and, if that day is not an Exchange business day the first preceding business day for which a closing quotation of the Index is published.

CONTRACT MODIFICATIONS — Specifications shall be fixed as of the first day of trading of a contract. If any U.S. Governmental agency or body issues an order, ruling, directive or law that conflicts with the requirements of these rules, such order, ruling, directive, or law shall be construed to take precedence and become part of these rules, and all open and new contracts shall be subject to such government orders.

DELIVERY — Delivery under the Standard and Poor's 500 Stock Price Index Futures contract shall be by cash settlement.

FINAL SETTLEMENT PRICE — The final settlement price shall be the closing quotation of the Standard and Poor's 500 Stock Price Index on the last day of trading.

CASH SETTLEMENT — Clearing members holding open positions in a Standard and Poor's 500 Stock Price Index futures contract at the time of termination of trading in that contract shall make payment to or receive payment from the Clearing House in accordance with normal variation margin procedures based on a settlement price equal to the final settlement price.

EMERGENCIES, ACTS OF GOD, ACTS OF GOVERNMENT — If delivery or acceptance or any precondition or requirement of either is prevented by a strike, fire, accident, action of government or act of God, the seller or buyer shall immediately notify the Exchange President. If the President determines that emergency action may be necessary, he shall call a special meeting of the Board of Governors and arrange for the presentation of evidence respecting the emergency condition. If the Board determines that an emergency exists, it shall take such action as it deems necessary under the circumstances and its decision shall be binding upon all parties to the contract.

FAILURE TO PERFORM — If a clearing member fails to perform all acts required by this chapter, then that clearing member shall be deemed as failing to perform which may be punishable as a major violation. The Board shall determine and assess losses sustained, taking into account the settlement price, interest earnings foregone, and such other factors as it deems appropriate. The Board may also assess such penalties as it deems appropriate in addition to damages.

SPECIFICATIONS FOR RANDOM LENGTH LUMBER FUTURES CONTRACTS TRADED ON THE INDEX AND OPTION MARKET

SCOPE OF CHAPTER — This chapter is limited in application to futures trading of "S-Dry" random length lumber. The procedure for trading, clearing, inspection, delivery, settlement and any other matters not specifically covered herein shall be governed by the rules of the Exchange.

COMMODITY SPECIFICATIONS — Each delivery unit shall consist of nominal 2x4's of random lengths from 8 feet to 20 feet, Each delivery unit shall consist of and be grade stamped CONSTRUCTION and STANDARD, STANDARD AND BETTER, or #1 and #2; however, in no case may the quantity of Standard grade or #2 grade exceed 50%. Each delivery unit shall be manufactured in California, Idaho, Montana, Nevada, Oregon, Washington, Wyoming or Alberta or British Columbia, Canada, and contain lumber produced from and grade stamped Alpine Fir, Englemann Spruce, Hem-Fir, Lodgepole Pine and/or Spruce-Pine-Fir.

TRADING MONTHS — Futures contracts shall be scheduled for delivery in such months as may be determined by the Board of Governors.

TRADING UNIT — The unit of trading shall be 130,000 board feet.

TICKER SYMBOL — LB

TRADING HOURS — 9:00 a.m. to 1:05 p.m.

PRICE INCREMENTS -- Minimum price fluctations shall be $0.10 per thousand board feet.

DAILY PRICE LIMITS — There shall be no trading at a price more than $5.00 per thousand board feet above or below the previous day's settlement price.

SPECULATION POSITION LIMITS — No person may carry, control, or have a proprietary interest in more than a total of 1,000 lumber contracts, with a maximum of 300 in any one contract month.

ACCUMULATION OF POSITIONS — The positions of all accounts owned or controlled by a person or persons acting in concert or in which such person or persons have a proprietary or beneficial interest shall be cumulated. The total position of each account in which a person has more than a nominal interest shall also be cumulated and added to other positions attributable to that person.

BONA FIDE HEDGES — The foregoing limits shall not apply to bona fide hedging transactions meeting the requirements of the Commodity Exchange Act and the rules of the Exchange.

TERMINATION OF TRADING — Trading in lumber shall terminate on the business day immediately preceding the 16th calendar day of the month.

CONTRACT MODIFICATIONS — Specifications shall be fixed as of the first day of trading of a contract except that all deliveries must conform to government regulations in force at the time of delivery. If any federal agency issues an order, ruling, directive or law that conflicts with the requirements of these rules, such order, ruling, directive or law shall be construced to take precedence and become part of these rules and all open and new contracts shall be subject to such government orders.

DELIVERY PROCEDURES — In addition to the procedures and requirements of Exchange rules, the following shall specifically apply to the delivery of lumber.

NOTICE OF INTENT TO DELIVER — Seller shall give his Notice of Intent to Deliver

to the Clearing House prior to 7:00 a.m. on any business day after termination of trading in the contract month, except that on the last business day of the month the notice shall be given prior to 12:00 noon.

BUYER'S DUTIES — The clearing member assigned the Notice of Intent shall deposit with the Clearing House no later than 10:00 A.M. on the following business day a certified or cashiers check in an amount sufficient to meet the cost of delivery; that is, the product of 130 times the settlement price at the close of trading.

The buyer shall within two business days of receipt of the Notice of Intent submit shipping instructions, to include consignee, point of destination and routing acceptable to the originating carrier.

SELLER'S DUTIES — If the buyer's designated destination is east of the western boundaries of North Dakota, South Dakota, Nebraska, Kansas, Texas and Oklahoma, and the western boundary of Manitoba, Canada, the seller shall follow the buyer's shipping instructions within seven (7) business days after receipt of such instructions. In addition, the seller shall prepay the actual freight charges and bill the buyer through the Clearing House on the weight basis of 1,800 pounds per thousand board feet and the rate basis of either the lowest published frieght rate in the rate class available to the shipping mill, from Portland, Oregon to the buyer's destination or the actual freight rate prepaid by the seller, whichever is lower,

Effective May 1982 contract: if the buyer's designated destination is east of the western boundaries of North Dakota, South Dakota, Nebraska, Kansas, Texas and Oklahoma, and the western boundary of Manitoba, Canada, the seller shall follow the buyer's shipping instructions within 7 business days after receipt of such instructions. In addition, the seller shall prepay the actual frieght charges and bill the buyer through the Clearing House on the weight basis of 1,800 pounds per thousand board feet and either (1), if a United States origin, the rate basis of either the lowest published freight rate, in the rate class available to the shipping mill, from Portland, Oregon, to the buyer's destination or the actual freight rate prepaid by the seller, whichever is lower, or (2), if a Canadian origin, the rate basis of either the lowest published freight rate, in the rate class available to the shipping mill, from Vancouver, British Columbia, to the buyer's destination or the actual freight rate prepaid by the seller, whichever is lower. *(Clarification: Specific rate classes (i.e., classes not available on all carriers serving an area) out of Portland or Vancouver, whichever is the relevant basing point for the delivering mill, should not be used for billing unless they are also available to the mill, are consistent with the buyer's shipping instructions and are consistent with the actual weight shipped and the type of car utilized.)*

If, however, the buyer's destination is outside of the aforementioned area, the seller shall follow the same precedure except that the freight charge shall be negotiated between the buyer and seller in accordance with industry practice.

If within two (2) business days of the receipt of the Notice of Intent the buyer has not designated a destination or if during that time the buyer and seller fail to agree on a negotiated freight charge, the seller may treat the destination as Chicago, Illinois. If the buyer does not designate a carrier or routing, the seller shall select same according to normal trade practices. Seller shall protect the lowest freight rate or load cars to the full visible capacity.

To effectuate delivery, the seller must deposit with the Clearing House a Delivery Notice, a uniform straight bill of lading and a shipper's manifest showing grade, a tally of pieces of each length, board feet by sizes and total board feet. All of the foregoing documents must be received by the Clearing House postmarked within 14 business days of the date of receipt of shipping instructions.

In addition, within 1 business day of acceptance by the railroad, the Clearing House must receive a telegram, telex, or telephone call from the seller giving car numbers, piece count by length, unit size, total board footage, and date of acceptance.

If the seller fails to fulfill any of the aforementioned duties within the prescribed time, penalties shall be assessed by the Clearing House Manager in accordance with the current penalty schedule.

PAYMENT — Upon the seller's fulfillment of the delivery the Clearing House shall transfer to him the amount due, payment to be made in U.S. dollars. Any government duties, fees, and charges from Canada shall be the responsibility of the shipper. Title shall pass to the buyer at the shipping point upon acceptance by the railroad, evidenced by signed and stamped bills of lading of the loaded railcars which are being shipped in satisfaction of the delivery. *(Clarification: The phrase "payment to be made in U.S. dollars" means that the "lowest published freight rate" and " the actual freight rate prepaid by the seller" are denominated in U.S. dollars with no exchange rate adjustment. The seller may not, however, bill the buyer for any surcharge for prepayment in Canadian dollars).*

PAR DELIVERY UNIT AND SUBSTITUTIONS — Delivery shall be made on track at the producing mill. The lumber shall be paper-wrapped and loaded on flat cars. *(Clarification: the term paper-wrapped is considered as a generic term which includes both poly and paper wrapping and their industry recognized equivalents.)* Cars shall be packed as close to equal as possible.

1. Size—

A delivery unit shall be 130,000 board feet of random length 2x4's provided the tally is within the following limits:

Length	Percent of Total Board Feet Delivered
8′	3% to 10%
10′	5% to 12%
12′	10% to 20%
14′	10% to 24%
16′	35% to 60%
18′	0% to 15%
20′	0% to 15%
16′ + 18′ + 20′	45% to 60%

(Clarification: If one or more banded units or individual pieces are to be deleted from the delivery unit in order to meet tally specifications, the buyer shall retain title to such lumber but shall not be billed for either the lumber which is to be disregarded or for the frieght associated with it. The seller must, in such cases, report both the actual tally and the adjusted tally to the Clearing House. A seller may not meet contract specifications by "pencil trimming" of lengths, i.e., assuming that a 20′ piece is only an 18′ piece.)

The lumber shall be double end trimmed, surfaced four sides, eased edge and of minimum dressed dimensions, as specified in Voluntary Product Standard 20-70, *American Softwood Lumber Standard,* published by the United State Department of Commerce (hereinafter referred to as PS 20-70).

2. Packaging—

The lumber shall be unitized; that is steel banded. In addition, all units shall contain lumber of equal lengths, except 18 foot and 20 foot lengths which may be banded together. The units shall be individually paper-wrapped.